FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN

(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN (A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
FSM National Government Employees' Health Insurance Plan:

Report on the Financial Statements

We have audited the accompanying financial statements of the FSM National Government Employees' Health Insurance Plan (the "Plan"), a component unit of the Federated States of Micronesia National Government, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FSM National Government Employees' Health Insurance Plan as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2016, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Deloitte + Touche LLP

June 24, 2016

The following discussion and analysis on the financial performance and activity of FSM National Government Employee's Health Insurance Plan (FSMNGEHIP) also known as MiCare Plan (the Plan) is to provide an introduction and understanding on the basic financial statements of the Plan for the fiscal year ended September 30, 2015. This discussion has been prepared by the management and should be read in conjunction with the financial statements and notes thereto, which follow this section.

Background

FSM National Government Employee's Health Insurance Plan (FSMNGEHIP), was established by the Federated States of Micronesia under Public Law 3-82 that was enacted on December 26, 1984 for the purpose of establishing a fund to pay for eligible members' certain medical expenses both on-island and off-island.

Participation to the Plan is optional for employees and employers, both public and private entities, in the Federated States of Micronesia with the exception of FSM National Government employees wherein their enrollment to the program is mandatory. Premiums are paid on a fixed bi-weekly rate for the five plan options: non-referral option, basic option, supplemental resident option, supplemental non-resident option, and regional/international workers option.

The Plan is under the governance of the Board of Directors, which consists of four (4) member representatives from each state government, one (1) from the FSM National Government, and one (1) member representing the private health sector, all of which are appointed by the President and confirmed by the FSM Congress. The seventh member of the board is the Administrator who is appointed by the Board of Directors and serves as an ex-officio member.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Plan. There are three financial statements presented, namely the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements present the overall financial picture of the Plan from the economic resources measurement focus using the accrual basis of accounting.

The accounts of the Plan are organized as a proprietary fund. Proprietary funds are used by governmental units that are operated in a manner similar to private business enterprises. The Plan's budget is prepared by management with the concurrence of the board of directors.

Financial Highlights

- Total net position decreased by $329,777 or 47% from $697,582 in 2014.
- Total liabilities increased by $432,322 or 27% as compared to $1,580,657 in 2014.
- Total operating revenues increased by $39,088 or 1% from $5,902,466 in 2014 to $5,941,554 in 2015.
- Total operating expenses increased by $423,603 or 7% from $5,945,521 in 2014 to $6,369,124 in 2015.
- Total non-operating revenues decreased by 9% from $107,111 in 2014 to $97,793 in 2015.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities and net position of the Plan as of the end of the fiscal year. This statement is a point of time financial statement. The purpose of the statement of net position is to present to the readers of the financial statements a fiscal snapshot of the Plan. The statement of net position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the data presented, readers of the statement of net position are able to determine the assets available to continue the operations of the Plan. They also are able to determine how much the Plan owes vendors and others. Finally, the statement of net position provides a picture of the net position (assets minus liabilities), which is a useful indicator of whether the overall financial position of the Plan is improving or weakening.

The following table summarizes the financial condition of the Plan as of September 30, 2015, 2014 and 2013.

	2015	2014	2013
Assets:			
Current assets	$ 1,807,572	$ 1,877,470	$ 1,950,089
Noncurrent assets	573,212	401,169	59,650
Total assets	$ 2,380,784	$ 2,278,239	$ 2,009,739
Liabilities:			
Current liabilities	$ 2,012,979	$ 1,580,657	$ 1,376,213
Net position:			
Net investment in capital assets	216,176	42,488	59,650
Unrestricted	151,629	655,135	573,876
Total net position	367,805	697,582	633,526
Total liabilities and net position	$ 2,380,784	$ 2,278,239	$ 2,009,739

Current assets decreased by $69,898 or 4% compared to prior year. Cash and cash equivalents decreased by $76,525 or about 50%. Investments increased by $15,356 or 1% compared to last year of $1,467,726. Premium receivables increased by about 5%. Accounts receivable decreased from $45,258 to $25,731. Noncurrent assets comprised of the Plan's property and equipment, net of accumulated depreciation. The increase of noncurrent assets in 2015 was primarily due to the current year's initial payments on the ABS (Automated Billing System). For additional information concerning capital assets, please see note 5 to the financial statements.

Current liabilities of $2,012,979 increased by $432,322, or 27%, from $1,580,657 in 2014. Net position for the year 2015 decreased by 47% to $367,805 compared to 2014 of $697,582.

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the statement of net position are based on the activities in the statement of revenues, expenses and changes in net position. The purpose of this statement is to present the revenues received by the Plan, both operating and non-operating, and expenses incurred by the Plan, operating and non-operating, and any revenues, expenses, gains and losses received or spent by the Plan.

Insurance premiums collected from plan members are the major source of operating revenues of the Plan. Operating expenses are those medical expenses incurred by plan members and the necessary cost to administer the Plan to carry out its mission. Non-operating revenues are revenues received for which goods or services are not provided such as investment income, appropriations from FSM National Government and others.

The following table summarizes the financial operations of the Plan for the years ended September 30, 2015, 2014 and 2013.

	2015	2014	2013
Operating revenues	$ 5,941,554	$ 5,902,466	$ 6,030,001
Operating expenses	6,369,124	5,945,521	5,862,134
Loss from operations	(427,570)	(43,055)	(167,867)
Non-operating revenues	97,793	107,111	108,059
(Decrease) increase in net position	(329,777)	64,056	275,926
Net position, beginning of year	697,582	633,526	357,600
Net position, end of year	$ 367,805	$ 697,582	$ 633,526

In fiscal year 2015, the gross operating revenue collection was $5,941,554. The following table indicates collections from public and private sector enrollees for fiscal years 2015, 2014 and 2013.

	2015	2014	2013
Public Sector	$ 4,598,839	$ 4,426,850	$ 4,616,812
Private Sector	1,342,715	1,475,616	1,413,189
Total	$ 5,941,554	$ 5,902,466	$ 6,030,001

Premium contributions from public sector in 2015 increased by $171,989 or 4% compared to last fiscal year. Private Sector contributions decreased by $132,901, or 9%, from $1,475,616 in FY 2014 to $1,342,715 in FY 2015.

Among the Public entities, FSM National Government and its agencies had the highest premium contribution to the Plan in 2015, from which the Plan collected $1,943,410 (42%); followed by Pohnpei State Government and its agencies $1,836,785 (40%); Kosrae $475,347 (10%); Yap $240,544 (5%) and Chuuk $102,753 (3%).

FSM National Government	$ 1,943,410
Pohnpei State Government	1,836,785
Kosrae State Government	475,347
Yap State Government	240,544
Chuuk State Government	102,753
	$ 4,598,839

For private sector contributions, private businesses in Pohnpei contributed $1,202,443 or 90% in fiscal year 2015 followed by Yap $105,482 (8%); Chuuk $19,548 (about 1%) and Kosrae $15,242 (about 1%).

Total operating expenses for fiscal year 2015 increased by 7% to $6,369,124 compared to $5,945,521 of last year. Medical claims and administrative expenses are the two major types of operating expenses of the Plan. Medical expenses of $5,815,946 in fiscal year 2015 increased by $456,725 compared to $5,359,221 of last year. The following table below indicates the medical expenses by type of claims for fiscal year 2015, 2014 and 2013.

Type of Claims	2015	2014	2013
Local State Hospitals	$ 719,277	$ 577,228	$ 702,000
Local Private Providers	1,917,958	1,987,168	1,971,152
Off-island Hospitals	2,876,937	2,529,124	2,365,932
Patients Airfare	296,349	265,526	264,928
Patients Stipend	5,425	175	2,700
Total Medical Claims	$ 5,815,946	$ 5,359,221	$ 5,306,712

In FY2015, the increase in the payment of capitation to the local state hospitals due to updating of Chuuk State Hospital capitation after unpaid premiums were satisfied.

The local private providers showed a decrease of $69,210 while off-island providers showed an increase of $347,813.

Patient airfare costs increased in fiscal year 2015 by $30,823 (12%) in comparison to fiscal year 2014.

Net administrative expenses of $553,178 is $46,576 less than the approved budget of $599,754 for fiscal year 2015. Overall decrease in administration expenses is about 6% compared to fiscal year 2014.

Management's Discussion and Analysis for the fiscal year ended September 30, 2014 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated June 22, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmopa.fm or MiCare Plan's website at www.micareplan.fm .

Economic Outlook

With the implementation of the One-Stop-Service Capitation (OSS) in FY 2015 and the Automated Billing System (ABS) in FY2016, the Plan is hoping to reduce medical claims cost off island for Basic referrals with the former and eliminate/reduce claim error with the latter. Those were the goals for the said fiscal year for which we have fallen short of achieving at the end of the time period.

We have had more than a year of operations for the OSS and the $300,000 saving that was projected was not achieved. For this reason, management is looking into ways of reducing medical claim utilization by other means other than the OSS. We may yet achieve that target cost saving but not the manner that we envisioned it to go through.

As for the ABS, despite some setbacks along the way, the system is slowly being built up and installed to the different on island providers. Once the system is fully in place and running, it is projected hasten the utilization review and payment of claims and eliminate/minimize the possibility of claim misrepresentation.

There is also an attempt to collect from our members the patient share that they owe the Plan via promissory notes when they are referred off island. We have been sending demand letters for payments and in the event that these efforts are not successful, the Plan may have a collecting agency take care of the matter or we may seek the help of the Attorney General (AG) to recoup the money that is owed.

This Management's Discussion and Analysis is designed to provide a general overview of the Plan's financial condition and performance. Questions concerning any of the information provided in this discussion and analysis or requests of information should be address to the Plan Administrator, Micare Plan, P.O. Box 2156, Kolonia, Pohnpei FM 96941.

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
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Statements of Net Position
September 30, 2015 and 2014

ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	$ 76,456	$ 152,981
Investments	1,483,082	1,467,726
Premiums receivable	222,303	211,505
Accounts receivable, net	25,731	45,258
Total current assets	1,807,572	1,877,470
Capital assets:		
Nondepreciable capital assets	154,200	-
Capital assets, net of accumulated depreciation	61,976	42,448
	216,176	42,448
Deposits with service providers	357,036	358,721
Total assets	$ 2,380,784	$ 2,278,639
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable - medical claims	$ 1,848,802	$ 1,533,970
Accounts payable - other	164,177	46,687
Total liabilities	2,012,979	1,580,657
Commitments and contingencies		
Net position:		
Net investment in capital assets	216,176	42,448
Unrestricted	151,629	655,134
Total net position	367,805	697,582
Total liabilities and net position	$ 2,380,784	$ 2,278,239

See accompanying notes to financial statements.

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Insurance premiums	$ 6,014,799	$ 5,985,477
Miscellaneous	37,905	5,160
	6,052,704	5,990,637
Less uncollectable accounts	(111,150)	(88,171)
Total operating revenues	5,941,554	5,902,466
Operating expenses:		
Medical claims	5,815,946	5,359,221
Personnel services	329,019	319,402
Travel	56,871	25,613
Rent	21,740	19,575
Depreciation	19,247	19,646
Supplies	18,659	12,902
Utilities	17,069	17,506
Contractual services	16,094	117,330
Communications	10,049	11,118
Repairs and maintenance	4,896	10,045
Printing	3,710	6,234
Insurance	883	1,956
Miscellaneous	54,941	24,973
Total operating expenses	6,369,124	5,945,521
Loss from operations	(427,570)	(43,055)
Non-operating revenues:		
Contribution from FSM National Government	80,000	100,000
Net increase in the fair value of investments	15,356	6,076
Other revenues	2,437	1,035
Total non-operating revenues	97,793	107,111
Change in net position	(329,777)	64,056
Net position at beginning of year	697,582	633,526
Net position at end of year	$ 367,805	$ 697,582

See accompanying notes to financial statements.

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
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Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Premiums received	$ 5,950,284	$ 5,886,125
Medical claims and benefits paid	(5,501,113)	(5,147,755)
Cash paid to suppliers and employees	(415,158)	(702,451)
Net cash provided by operating activities	34,013	35,919
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(192,975)	(2,444)
Cash flows from investing activities:		
Additions to investments	-	(100,000)
Net purchases, sales and maturities of investments	(11,100)	(10,120)
Interest and dividends received	13,537	11,156
Net cash provided by (used in) investing activities	2,437	(98,964)
Cash flows from noncapital financing activities:		
Contribution from the FSM National Government	80,000	100,000
Net change in cash and cash equivalents	(76,525)	34,511
Cash and cash equivalents at beginning of year	152,981	118,470
Cash and cash equivalents at end of year	$ 76,456	$ 152,981
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	$ (427,570)	$ (43,055)
Adjustment to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	19,247	19,646
Bad debts	111,150	88,171
(Increase) decrease in assets:		
Premiums receivable	(10,798)	(252)
Accounts receivable	(91,622)	(104,260)
Deposits with service providers	1,286	(128,775)
Increase (decrease) in liabilities:		
Accounts payable - medical claims	314,831	211,466
Accounts payable - other	117,489	(7,022)
Net cash provided by operating activities	$ 34,013	$ 35,919

See accompanying notes to financial statements.

(1) Reporting Entity

FSM National Government Employees' Health Insurance Plan also known as MiCare Plan, Inc. (the Plan) was initially created by Public Law 3-82 in 1984 and amended by Public Law 12-77 of the Twelfth Congress of the Federated States of Micronesia (FSM) National Government in 2003. The purpose of the Plan is to provide, arrange for, pay for, or reimburse the costs of medical, dental and vision treatment and care, hospitalization, surgery, prescription drugs, medicine, prosthetic appliances, out-patient care, and other medical care benefits, in cash or the equivalent in medicines and supplies.

The Plan's financial statements are incorporated into the financial statements of the FSM National Government as a component unit. The Plan is under the governance of a seven-member Board of Directors, four of whom represents each of the four states of the FSM, one represents the FSM National Government, and one the private healthcare sector. These six members are appointed by the FSM President with the confirmation of the FSM Congress. The seventh member of the Board is the Plan Administrator who is selected by the Board and serves as an ex-officio member.

(2) Summary of Significant Accounting Policies

The accounting policies of the Plan conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement No. 34, equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of unbilled medical claims.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

Revenue Recognition

Health care premiums from enrolled members of the Plan are reported as revenue in the period such becomes due.

Cash and Cash Equivalents

For the purposes of the statements of net position and of cash flows, cash and cash equivalents are defined as cash in bank checking and savings accounts.

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Premiums and Accounts Receivable

Premiums receivable are primarily due from the FSM National Government and its four States. Accounts receivable mainly include patient's share of the medical billings paid by the Plan. The Plan establishes an allowance for uncollectible accounts based on the credit risk of specific customers, historical trends and other information. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Deposits with Service Providers

Security deposits for medical claims are maintained for certain services providers and are recorded as deposits with service providers in the accompanying statements of net position.

(2) Summary of Significant Accounting Policies, Continued

Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. All of the assets have an estimated useful life of three to five years. The Plan capitalizes assets with individual values of $1,000 and over. Assets with a value below $1,000 are expensed in the year of purchase.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Plan has no items that qualify for reporting in this category.

Medical Claims Payable

Medical claims payable represent the estimated liability on claims reported to the Plan and reserves for claims incurred but not yet reported. The liabilities for claims are determined using estimates of the ultimate net cost of all claims incurred through the financial statement date. While management believes that the liability for medical claims payable is adequate, such estimates may be more or less than the amounts ultimately paid when the claims are settled.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (addition of net position) until then. The Plan has no items that qualify for reporting in this category.

Reclassification

Certain account balances in 2014 have been reclassified to conform to the 2015 financial statements presentation.

New Accounting Standards

During fiscal year 2015, the Plan implemented the following pronouncements:

- GASB S*tatement* No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the Plan's financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 24, 2016. Management does not believe that the implementation of this statement will have a material effect on the Plan's financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Plan's financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the Plan’s financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the Plan’s financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the Plan’s financial statements.

(3) Deposits and Investments

A. Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Plan’s deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government’s name. The Plan does not have a deposit policy for custodial credit risk.

As of September 30, 2015 and 2014, the carrying amount of the Plan’s total cash and cash equivalents was $76,456 and $152,981, respectively, and the corresponding bank balance was $135,244 and $297,207, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, bank deposits in the amount of $130,706 and $265,975, respectively, were FDIC insured. The Plan does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. Management's confidence in the financial strength of their banking institutions was the basis of the decision to not require collateralization. No losses as a result of this practice were incurred for the years ended September 30, 2015 and 2014.

(3) Deposits and Investments, Continued

B. Investments:

As of September 30, 2015 and 2014, investments at fair value are as follows:

	2015	2014
Fixed income securities:		
Domestic fixed income	$ 1,441,287	$ 1,407,056
International fixed income	21,278	-
	1,462,565	1,407,056
Other investments:		
Money market funds	20,517	60,670
	$ 1,483,082	$ 1,467,726

As of September 30, 2015, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	5 to 10 Years	Fair Value
U.S. Treasury obligations	AAA	$ 134,156	$ 452,490	$ 74,983	$ 661,629
U.S. Government agencies obligations	AAA	154,372	311,526	-	465,898
Corporate bonds	Aaa	22,039	16,132	-	38,171
Corporate bonds	Aa	10,163	58,760	-	68,923
Corporate bonds	A	32,432	149,816	-	182,248
Corporate bonds	Baa	15,301	30,395	-	45,696
		$ 368,463	$ 1,019,119	$ 74,983	$ 1,462,565

As of September 30, 2014, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	Fair Value
U.S. Treasury obligations	AAA	$ 135,261	$ 467,569	$ 602,830
U.S. Government agencies obligations	AAA	125,188	410,743	535,931
Corporate bonds	Aaa	-	15,934	15,934
Corporate bonds	Aa	4,068	49,412	53,480
Corporate bonds	A	13,185	144,855	158,040
Corporate bonds	Baa	13,193	27,648	40,841
		$ 290,895	$ 1,116,161	$ 1,407,056

(3) Deposits and Investments, Continued

B. Investments, Continued:

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Plan will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Plan's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Plan's name by the Plan's custodial financial institution at September 30, 2015 and 2014.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Plan. As of September 30, 2015, the Plan's investments include fixed income securities of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which represent 21% and 11%, respectively, of the Plan's total investments. As of September 30, 2014, the Plan's investments include fixed income securities of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which represent 28% and 10%, respectively, of the Plan's total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(4) Accounts Receivable

A summary of accounts receivable at September 30, 2015 and 2014 is as follows:

	2015	2014
Accounts receivable	$ 383,126	$ 292,609
Allowance for doubtful accounts	(357,395)	(247,351)
	$ 25,731	$ 45,258

(5) Fixed Assets

Capital asset activities for the years ended September 30, 2015 and 2014, are as follows:

	Balance October 1, 2014	Additions	Deletions	Balance September 30, 2015
Depreciable assets:				
Office furniture, fixtures and equipment	$ 126,249	$ 31,063	$ (20,280)	$ 137,032
Vehicles	67,657	7,712	(15,418)	59,951
	193,906	38,775	(35,698)	196,983
Less accumulated depreciation	(151,458)	(19,247)	35,698	(135,007)
	42,448	19,528	-	61,976
Non-depreciable assets:				
Construction in progress	-	154,200	-	154,200
Capital assets, net	$ 42,448	$ 173,728	$ -	$ 216,176

	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014
Office furniture, fixtures and equipment	$ 123,805	$ 2,444	$ -	$ 126,249
Vehicles	67,657	-	-	67,657
	191,462	2,444	-	193,906
Less accumulated depreciation	(131,812)	(19,646)	-	(151,458)
	$ 59,650	$ (17,202)	$ -	$ 42,448

(6) Commitments and Contingencies

Litigation

The Plan is a party to various legal proceedings, the ultimate impact of which is not currently predictable. Therefore, no liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome of these proceedings.

Self Insurance

The Plan carries vehicle insurance to cover its potential risks. The Plan is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

Contract Commitments

Contract commitments in connection with projects currently in construction approximate $169,000 at September 30, 2015. During fiscal year 2015, the Plan began a $323,000 capital project to develop and implement a health information management system. The project will be substantially completed in fiscal year 2016.

(6) Commitments and Contingencies, Continued

Lease Commitments

The Plan has five operating leases as of September 30, 2015, of which three are residential real estate leases for contract employees, one represent a lease for the main office in Pohnpei, and one for a liaison office in Manila (four with lease term of one year and one for 5 years). All leases have an option allowing the Plan to renew the lease upon expiration of the current term. It is likely that these options will be utilized by the Plan and the leases renewed. The approximate future minimum annual lease payments payable by the Plan are as follows:

Fiscal year ending September 30,	Total
2016	$ 24,000
2017	24,000
	$ 48,000

(7) Related Parties

During the years ended September 30, 2015 and 2014, the Congress of the FSM National Government (FSMNG) appropriated $80,000 and $100,000, respectively, to the Plan for the purpose of partially paying outstanding accounts payable of the Plan.

As of September 30, 2015, the Plan has $104,504 payroll payable to FSMNG.

(8) Retirement Plan

The Plan has a retirement plan implemented effective June 1, 2012, administered by a private corporation. All permanent employees and contract employees with an employment contract of one or more years stated within the contract agreement with the Plan are eligible for the retirement plan. Employee contributions can be made at minimum of 3% up to 100% of earnings with a 100% match by the Plan up to 10% of employee compensation. The Plan Administrator is the designated retirement plan administrator. During the years ended September 30, 2015 and 2014, the Plan incurred an expense of $8,317 and $9,324, respectively, for matching contributions. As of September 30, 2015 and 2014, retirement plan assets were $47,670 and $41,588, respectively. Management is of the opinion that the retirement plan assets do not represent an asset of the Plan, as such, balances are not recorded in the accompanying financial statements.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
FSM National Government Employees' Health Insurance Plan:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the FSM National Government Employees' Health Insurance Plan (the Plan), which comprise the statement of net position as September 30, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte + Touche LLP

June 24, 2016